BOOK REVIEW

Good to Great: Why Some Companies Make the Leap . . . and Others Don't

Jim Collins (HarperBusiness, New York; 2001; ISBN 0-06662-099-6) $27.50. Also available on cassette, ISBN 0-69452-607-X, $25.95, and on CD, ISBN 0-69452-608-8, $29.95 (HarperAudio, New York; 2001).

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This book is a big best-seller that's getting a lot of attention, and rightfully so. It is useful, important, exciting, inspiring, and very appealing. It is also, in some respects, potentially beguiling. I will, therefore, give it more space and thought than most books get in C2M. First I'll summarize the big ideas, and then I'll raise some questions.

The Big Ideas

Jim Collins co-authored the 1994 best-seller *Built to Last: Successful Habits of Visionary Companies.* That book reported his research on what it takes to start and build great and long-lasting companies from the ground up. This new book reports his research on what established companies must do to move from good performance to truly great performance.

How great? The elite companies in this study that made the leap to great performance and sustained it for at least 15 years beat the general stock market by an average of 6.9 times. That's better than twice the results delivered by such high performers as Coca-Cola, Intel, General Electric, and Merck. Collins puts this in perspective by noting that if we had invested a dollar in a mutual fund of the good-to-great (hereafter GTG) companies in 1965, and simultaneously invested a dollar in the overall stock market, our dollar invested in the general market would have been worth $56 by January 2001. Our dollar in the GTG fund would have been worth $471!

Those are remarkable numbers, especially since they came from companies that previously had been quite *un*remarkable—Abbott, Circuit City, Fannie Mae, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreens, and Wells Fargo. These 11 companies are the GTG companies that provide the stories for this book and Collins's conclusions about how to make a truly great company.

Collins, aided by a research team, found these 11 companies by first studying the performance of 1,435 companies in the USA that made the Fortune 500 from 1965 to 1995, looking for every company that made a leap from average to genuinely great results, and sustained those results for at least 15 years. The researchers then compared those companies to a carefully selected group of comparison companies that failed to make the leap, or if they did, failed to sustain it.

The detailed description of methodology and the statistics most of us would expect from a former Stanford professor are here, but blissfully appended at the end. Before getting there, Collins gives us the characteristics that differentiate companies that take on the world and win from those that don't, and he illustrates his concepts with stories about those companies. It's compelling reading, and the findings seem to demolish many common assumptions about what makes companies great. The GTG transitions were not made by CEOs brought in from the outside to save the companies, nor new technologies, nor mergers and acquisitions, nor highly touted change initiatives, nor highly paid executives, nor corporate restructuring. Instead, Collins and his team found six steps to be taken, in this order:[1]

■ *Step 1. The Right Leaders.*[2] All the GTG companies had CEOs cut from the same cloth, and very different from the common myths about great leaders. None of the GTG companies had larger-than-life saviors with big personalities who were brought in from the outside to transform the companies. The GTG leaders displayed a workmanlike diligence and were modest and reserved. They were, paradoxically, both humble and strong-willed. They were surely ambitious—but foremost for their companies, not for themselves. They exhibited a fierce resolve to produce sustained results—an enduring enterprise; and they were committed to doing whatever it took to accomplish that. When they succeeded, they credited others, good luck, and fortunate timing. When they failed, they took full responsibility themselves. They set up their successors for even more success. They were more like Lincoln and Socrates than Patton or Caesar.

■ *Step 2. First Who . . . Then What.* Most believe that the transition to greatness begins with top management setting a new vision, devising new strategies, and then getting people committed and aligned to that. Not so with the managers of the great companies in this study. The managers profiled here first got the right people, got rid of the wrong people, and put the right people in the right jobs. Then they figured out where to go, and how.

They did that because they understood three fundamental truths: First, if you begin with *who* instead of *what,* you can more easily adapt to a changing world. Second, if you have the right people, the problem of how to motivate and manage them largely goes away. Third, if you have the wrong people, it doesn't matter whether you discover the right direction; you still won't have a great company. Great vision without great people is irrelevant.

■ *Step 3. Confront the Brutal Facts, Yet Never Lose Faith.* Breakthrough results come from a series of good decisions, diligently executed and accumulated one after another. No one can make a series of good decisions without first confronting the facts. The companies that became great had the discipline to confront the most brutal facts of their current reality. And, paradoxically, they also maintained unwavering faith that they could and would prevail in the end, no matter what the difficulties. Every company encountered significant adversity on the way to greatness. What distinguishes great people and companies is not the presence or absence of difficulty, but how they deal with it. Great companies operated from both sides of the paradox—they confronted the facts without ever losing faith, and they never let facts or faith overshadow the other.

■ *Step 4. Know Your Business.*[3] The great companies based their success on a deep understanding of three essential and intersecting ideas: what they could be the best in the world at, what they were deeply passionate about, and what drove the economics of their enterprise. Then they translated that understanding into a simple, crystalline strategy that guided all their efforts.

For example, Walgreens came to understand it could build the most convenient drugstores, with high profit per customer visit. That's it. That's the breakthrough strategy they used to beat Intel, GE, Coca-Cola, and Merck. They took that simple concept and implemented it with single-minded consistency. They knew, as did all the GTG companies, that the essence of profound understanding is simplicity. They developed piercing insight that enabled them to see through complexity and discern underlying patterns. They saw what [illegible]s essential and ignored the rest. This made for a simple, unglamorous business that knew one big thing and stuck to it.

■ *Step 5. Develop a Culture of Discipline.* All companies have a culture, and some companies have discipline, but few companies have a culture of discipline. The GTG companies all built one. First, they built a culture around the idea of freedom and responsibility, within a framework. Companies need consistent systems with clear constraints, *and* they also need to give people freedom and responsibility within those systems. The GTG companies hired self-disciplined people who didn't need to be managed, and then managed the system, not the people.

Second, they hired people who would go to extreme lengths to get the job done. Certain words kept coming up to describe these people: *disciplined, rigorous, dogged, determined, diligent, precise, fastidious, systematic, methodical, workmanlike, demanding, consistent, focused, accountable, responsible.* These people did whatever it took—within the system—to become the best at carefully selected activities they were passionate about, paying constant attention to the economics of their business. Then they sought continual improvement from there. It's really just that simple. And it's really just that difficult.

Third, these GTG companies never confused a culture of discipline with tyranny. There are many companies that produce impressive results but don't sustain them. In every such case Collins studied, the spectacular rise occurred under a too strict disciplinarian. When those CEOs left, there was no lasting culture of discipline, and the companies declined as spectacularly as they had risen.

Fourth, the GTG companies adhered almost fanatically to their basic strategy, exercising an incredibly consistent focus on the intersection of their understanding of what they could be the best at, what they had great passion for, and what made superior economic sense in their situation.

Fifth, these companies thought lists of things to *stop doing* were more important than lists of things to do. They systematically abandoned everything that didn't fit their goals and strategy—including seemingly once-in-a-lifetime opportunities.

■ *Step 6. Use Technology to Accelerate Transformation.* The GTG companies used technology not to create momentum but to accelerate it. None of the GTG companies started their transformations with pioneering technologies, but they all became pioneers in the application of carefully selected technologies once they saw a fit with their core ideas and strategy. And deliberate and methodical thinking and experimenting was their style, even when technology was changing rapidly and radically. Their approach was *crawl, then walk, then run.*

■ *The Flywheel Concept.* No matter how dramatic the end result, the GTG transformations never happened in one fell swoop. There were no single defining actions, no dramatic interventions, no wrenching restructurings, no single killer innovations, no solitary lucky breaks, no miracle moments. The process of transformation was always one of buildup followed by breakthrough. The process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum up to a point of breakthrough, and beyond. The GTG companies stuck with that methodical work even when faced with dire short-term consequences. In so doing, they finally began to deliver dramatic and continually improving results.

■ *Overall.* Collins says this book is not about the old economy or the new. It is not about the companies used as illustrations, or even about business as such. It is essentially about the timeless principles of how to take an organization and turn it into one that produces sustained great results, using whatever definition of results best applies to that organization. These are universal principles that can be applied to any organization. If Walgreens can do it, any organization can. These findings should give all organizations hope. All organizations should be able to make significant improvement—perhaps even make the leap from good to great—if they conscientiously apply his findings. So he says. And, for the most part, I wholeheartedly agree. But I do have some reservations.

Questions

The big potential problem, as I see it, is that Collins is so eloquent, his stories are so exciting, and his six-step process is so appealing, that it's tempting to take his program and swallow it whole, to implement it *in toto.* It would be wise, I think, to ask some questions before doing that.

First, are 11 companies too small a sample to support Collins's generalizations? Don't the social sciences say that at least a hundred companies in similar circumstances would be needed? Is it not true that commonalities among 11 successful companies can be *suggestive* but not anywhere close to conclusive? I asked Jim Collins about this, and he responded by saying:

> We were also worried about this same issue, so we engaged two professors to help us resolve this question, one statistician and one applied mathematician. They helped us see two key points: (1) we did not "sample," and (2) the comparison process should give us reasonable confidence in the findings. As I wrote in the epilogue, the statistician, Jeffrey T. Luftig at the University of Colorado, looked at our dilemma and concluded that we do *not* have a statistics problem, pointing out that the concept of "statistical significance" applies only when sampling of data is involved. "Look, you didn't *sample* companies," he said. "You did a very purposeful *selection* and found the 11 companies from the *Fortune* 500 that met your criteria. When you put these 11 against the 17 comparison companies, the probabilities that the concepts in your framework appear by random chance are essentially zero." When we asked applied mathematics professor William P. Briggs to examine our research method, he framed the question thus: "What is the probability of finding by chance a group of 11 companies, all of whose members display the primary traits you discovered while the direct comparisons do not possess those traits?" He concluded that "the probability is less than one in 17 million. There is virtually no chance that we simply found 11 random events that just happened to show the good-to-great pattern we were looking for."

That seems to be a good answer to my question about sample size. If there's something wrong with its logic, I don't see it. So let's lay that concern to rest.

A second question is this: While it's logical to conclude from the findings in the book that all the GTG companies have certain characteristics in common, is it logical to predict that all companies with the same characteristics will become great? I think not. All companies with the GTG characteristics may become great, but that is by no means a sure thing.

Third, Collins says his findings apply to all organizations, yet his study was confined to stable, mature, successful businesses. He did not study new ventures, small companies, troubled businesses, schools, hospitals, governments, armies, or charities. So, will all of his prescriptions transport well to other kinds of organizations? Probably not. For example, the leaders that Collins found right and necessary for his GTG companies may not necessarily be right for all organizations. Sometimes the situation calls for an Eisenhower, and sometimes it demands a Patton.

Fourth, Collins defines the characteristics of GTG leaders in terms of the results they achieve, but tells us little about the skills required to achieve those results. Rather, he makes the common error of typing people by personality and generalizing from that to performance. For more than 35 years I've studied the professional literature on what makes top performers in business and have assessed in depth the skills and performance of thousands of key people in 500 different businesses in 40 different industries. I've found no correlation between personality and performance. The correlations are all between *skills* and performance. And personality and skills are by no means the same thing.

Fifth, the book's three great questions, *What can a business be the best in the world at? What are the people in the business passionate about?* and *What are the economic drivers in the business?* are fascinating and useful in many situations. But not all.

For example, when Chrysler hired Lee Iacocca in 1979, there was no time to ask and answer those three questions. The essential mission was already defined by circumstances. Chrysler had an immediate need for capital that wasn't available in the commercial marketplace. Iacocca got it from the government. That capital was absolutely essential to giving Chrysler the time and the resources to turn the company in the right direction.

It is, without doubt, incredibly powerful to concentrate on a simply stated strategy and to use that to guide all decisions and efforts. But different situations require different questions to discover what that strategic focus should be.

- Some, such as college presidents or hospital administrators, will find Drucker's great questions *Who is our customer?* and *What is our business?* much more on point than the questions Collins prescribes.

- Other organizations are essentially defined by their charters. Unlike Kimberly-Clark, which could sell all its paper mills and switch to consumer products, most nonprofit organizations can't change their customers. For such organizations, the primary questions are *What do our customers need and want that they don't already have, that we can provide with the resources we have? What will our customers need in the future?* and *How can we get prepared to deliver that?*

- Some, such as commanders in battle, best begin by asking *What are we trying to accomplish?* and *What people and resources will we need to do that?* In those cases, it's first what and then who, not the other way around.

- And others, especially those creating their own enterprises, may be best served by asking *With whom do we want to work? What do we want to do for and with those people?* and *How do we want to do that?*

Perhaps I'm assuming that many who read *Good to Great* will be naïve. And surely many of these issues are very complex with no simple answers. Even so, because Collins did not qualify some of his assertions, he can be misunderstood. That leaves readers open to being misled, albeit unintentionally. And that's my real concern—especially because this is such a powerful and otherwise excellent book.

Despite my reservations, I highly recommend this book to all our readers—particularly those working with mature businesses that are not achieving all they could. Other readers will want to be careful. *Good to Great* is an exciting and inspiring book, and (with the qualifications noted) most of the prescriptions are reasonable and sound. They are basic principles that—if consistently applied with focus and discipline—dramatically increase the odds that a business will succeed. And, not incidentally, these principles are just as true for individuals in business as they are for organizations in business. All management consultants and their clients will benefit from mastering this material well enough to discuss and apply it wisely.

Notes

1. Collins also provides a good deal of useful information about how to implement these six steps, but I do not have space to summarize that here. I have done so elsewhere, and that's available from this reviewer for the asking.
2. This is not what Collins calls it. I've eliminated some of his terms here and elsewhere (for lack of space to define them), while retaining and using many of his words and phrases in my summary.
3. Same as above.

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